

Business Tax Overview

JULY 2008

BUSINESS TAX STRUCTURE

The state of Washington does not have a corporate, unitary, or personal income tax. However, Washington businesses are subject to three major taxes either administered or overseen by the Department of Revenue:

- Business and occupation tax
- Retail sales/use tax
- Property tax

BUSINESS AND OCCUPATION TAX

The business and occupation tax (B&O) is based on gross receipts. There are several classifications for the B&O tax based on the type of business activity. Each classification has its own tax rate. Some of the major categories and their rates are:

B&O TAX CLASSIFICATION RATE

Retailing.....	.00471
Extracting, Extracting for Hire.....	.00484
Manufacturing00484
Wholesaling00484
Service and Other Activities015

Virtually all businesses in Washington are subject to B&O tax, including corporations, limited liability companies (LLCs), partnerships, and sole proprietorships, whether nonprofit or for profit. Farming and the sale or rental of real estate are major activities that are exempt from B&O tax.

RETAIL SALES AND USE TAX

Businesses in Washington collect and remit retail sales tax on the sale of tangible personal property and certain services. The state sales tax rate is 6.5 percent. Local governments also levy a sales tax. The combined sales tax rates range from 7.0 to 8.9 percent of the selling price, depending on location. Examples of services subject to the retail sales tax include, but are not limited to, cleaning, repairing, altering, or improving real or personal property.

Use tax is due on the value of tangible personal property, and some amusement and recreation services, used in the state when retail sales tax has not been paid. For example, use tax is generally due on fixtures and equipment included in the purchase of an existing business.

EXEMPTION

The most frequently used exemptions to retail sales and use taxes include:

- Groceries
- Prescription drugs
- Sales to the federal government
- Newspapers
- Machinery and equipment used directly in a manufacturing operation
- Labor and services involved in the installation and repair of the manufacturing machinery and equipment noted above

PROPERTY TAX

Property taxes are administered by the counties. The taxes have state and local components. Rates vary by location and taxes are based on the assessed value of property. The average statewide property tax is approximately \$12 per \$1,000 of assessed value. Common property tax exemptions include:

- Business inventories
- Intangibles, such as currency, bank deposits, stocks, and bonds
- Household goods and personal items
- Certain agricultural, timber, mineral, or metallic products manufactured in other states to be transported out of Washington

If you have questions about the property tax rates in a specific area, please contact your local county assessor's office.

MISCELLANEOUS TAXES

Other state business taxes collected by the Department of Revenue include:

- Public utility tax
- Carbonated beverage tax
- Fish tax
- Timber tax
- Tobacco products tax
- Litter tax
- Refuse (solid waste) collection tax
- Hazardous substance tax

For more information about these taxes, visit our web site at dor.wa.gov.

TAX DEFERRALS, EXEMPTIONS AND CREDITS

Washington offers several incentive programs to businesses engaging in certain industrial/manufacturing activities. The incentives are designed to encourage specific industries to locate or expand in Washington, and to provide employment opportunities in areas suffering from a poor economy.

The major programs include:

- Aerospace
- Manufacturers' Sales/Use Tax Exemption
- Rural Area Sales/Use Tax Deferrals and Exemptions
- Rural Area B&O Tax Credits for New Employees
- High Technology Sales and Use Tax Deferrals
- High Technology B&O Tax Credits
- Warehouse/Distribution Center

Visit the Department's web site at dor.wa.gov or call our Telephone Information Center at 1-800-647-7706 for additional information on these programs.

TAX REGISTRATION

To register a business in Washington, you must complete a Master Application, which will register your business with the departments of Revenue, Licensing, Labor and Industries, Employment Security, and the Office of the Secretary of State.

To obtain a Master Application:

- Click on "Doing Business" on our web site at dor.wa.gov
- Call or visit a local Revenue office
- Contact our Telephone Information Center at 1-800-647-7706

OTHER AGENCIES

Several federal, state, and local agencies have specific licensing and reporting requirements that may apply to your business.

LICENSING

Certain business activities – such as selling liquor, cigarettes or lottery tickets – require special registration or agency authorization. Contact the Department of Licensing for:

- General information on special licenses or requirements on how to obtain them
- Order a customized business packet
- Register trade names for sole proprietorships and general partnerships

DEPARTMENT OF LICENSING MASTER LICENSE SERVICE

P.O. Box 9034
Olympia, Washington 98507-9034
(360) 664-1400
www.dol.wa.gov/Business/

LABOR AND INDUSTRIES

If you employ one or more persons, you must apply for industrial insurance coverage with the Department of Labor and Industries. Industrial insurance isn't required for business owners, but you can complete an application for employer coverage if you choose. To apply for industrial insurance or request information, access the web site below or look in the state government listings of your telephone book.

DEPARTMENT OF LABOR AND INDUSTRIES EMPLOYER SERVICES

PO Box 44000
Olympia, Washington 98504-4000
(360) 902-5800
www.lni.wa.gov

EMPLOYMENT SECURITY

If you have employees, you must apply for unemployment insurance coverage with the Employment Security Department. For the office nearest you, access the web site below or refer to the state government listings in your telephone book.

EMPLOYMENT SECURITY DEPARTMENT

PO Box 9046
Olympia, Washington 98507-9046
(360) 407-5145
www.esd.wa.gov

SECRETARY OF STATE

Contact the Secretary of State's office to file Articles of Incorporation or a Certificate of Limited Partnership. The Secretary of State also registers trademarks and trade names for corporations and limited partnerships.

SECRETARY OF STATE, CORPORATIONS DIVISION

PO Box 40234
Olympia, Washington 98504-0234
(360) 725-0377
www.secstate.wa.gov

INTERNAL REVENUE SERVICE

If you pay employment taxes, such as industrial and unemployment insurance, you must have a Federal Employer Identification Number (FEIN). In some cases, businesses without employees may be required to obtain a FEIN. The Internal Revenue Service also offers workshops and other taxpayer education services.

www.irs.ustreas.gov
Business Tax Kit 1-800-829-3676
Information 1-800-829-1040
Forms 1-800-829-3676
Teletax 1-800-829-4477

(24-hour tax information)

CITY AND COUNTY OFFICES

Many cities and counties impose B&O taxes or have registration requirements. If you are located or operate in a city or county with such requirements, you must register with the taxing authority. To find out which cities and counties have these requirements and where to call for more information, contact our Telephone Information Center at 1-800-647-7706.

FOR MORE INFORMATION

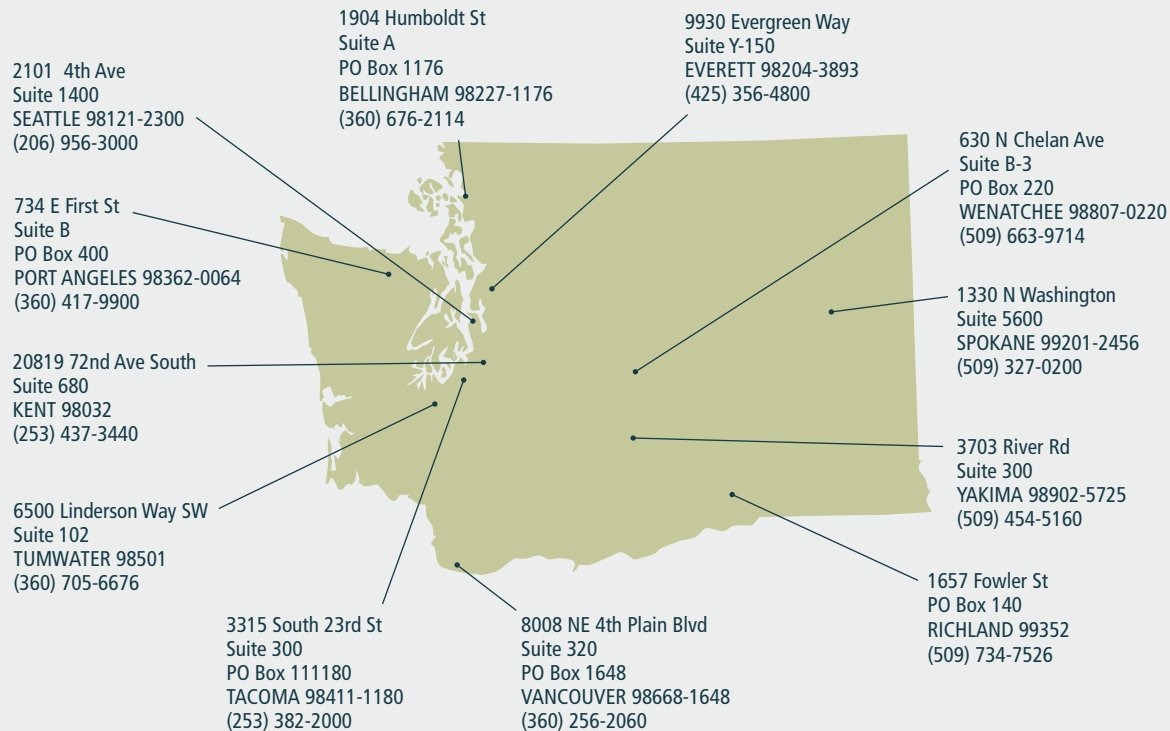
If you have questions regarding your business's tax obligations or Washington's B&O, sales, use, or property taxes, visit our web site, contact your local Revenue office, call the Telephone Information Center, or write to:

TAXPAYER INFORMATION AND EDUCATION WASHINGTON DEPARTMENT OF REVENUE

PO Box 47478
Olympia, WA 98504-7478
FAX: (360) 705-6655

DEPARTMENT OF REVENUE TAXPAYER ASSISTANCE

LOCAL OFFICE LOCATIONS



TELEPHONE INFORMATION CENTER

1-800-647-7706

[HTTP://DOR.WA.GOV](http://DOR.WA.GOV)

To inquire about the availability of this publication in an alternate format for the visually impaired, please call (360) 705-6715. Teletype (TTY) users please call 1-800-451-7985.

The information contained in this fact sheet is current as of the date of this publication and provides general information about Washington's business taxes. It does not cover every aspect of the taxes, nor does it alter or supersede any administrative regulations or rulings issued by the Department.